HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

NEW HOME MARKET

Record High for New Home Construction

Total housing starts in the Calgary Census Metropolitan Area (CMA) are projected to reach an all-time high of 17,250 units in 2006, breaking the previous record set in 1978. A frigid January and a record level of rainfall slowed construction in 2005, pushing a significant amount of construction forward into 2006. In spite of labour constraints, construction has expanded rapidly this year. To the end of September 2006, there have been 13,039 total starts, about 26 per cent higher than last year at this time. While impressive, a comparison to other jurisdictions puts the gain in better perspective. To the end of September, Calgary's gain in housing starts is about 25 percentage points above the national growth rate.

Single-detached Homes Surpass 10,000 Units

The expected record level of total housing starts in 2006 can be attributed to a new high for single-detached construction. To the end of September, single-detached housing starts have reached 8,304 units in the Calgary CMA, up 28 per cent from the same period last year. The previous record of 9,413 units set in 2002 is expected to be surpassed this year, with 10,500 single-detached homes started in the Calgary CMA.

To the end of September, there have been a total of 6,048 single-family homes completed. The inventory of single-detached homes, completed and unabsorbed, stood at 483 units in September, among the lowest in eight years. The decline of inventory can be attributed to a substantial drop in the number of spec units. At the end of September there were 6,448 single-family homes under construction in the Calgary CMA, the highest on record.

Record demand combined with increased production and land costs is boosting the price of a new home. For 2006, the absorbed price of a new single-detached home is expected to average $355,000, 12 per cent higher than 2005. CMHC calculates the absorbed price of homes once they have been completed and absorbed. From start to completion it takes between six to twelve months to build a house. Thus many of the homes included in the 2006 average would have been priced and contracted at a significantly lower price sometime in 2005. Given the current spike in land, labour, and material costs, we expect the average price to soar to just under $488,000 in 2007. At 37 per cent, this will represent the highest rate of price growth on record.

CALGARY

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Demand for new housing is expected to remain strong in 2007, though moderate slightly. Existing home owners have built-up a lot of equity in recent years, greatly increasing the affordability of a new home. For first-time buyers and new migrants, however, the higher priced product may cause some to turn to condominium or resale market, where an increased level of listings will offer more and cheaper alternatives. In

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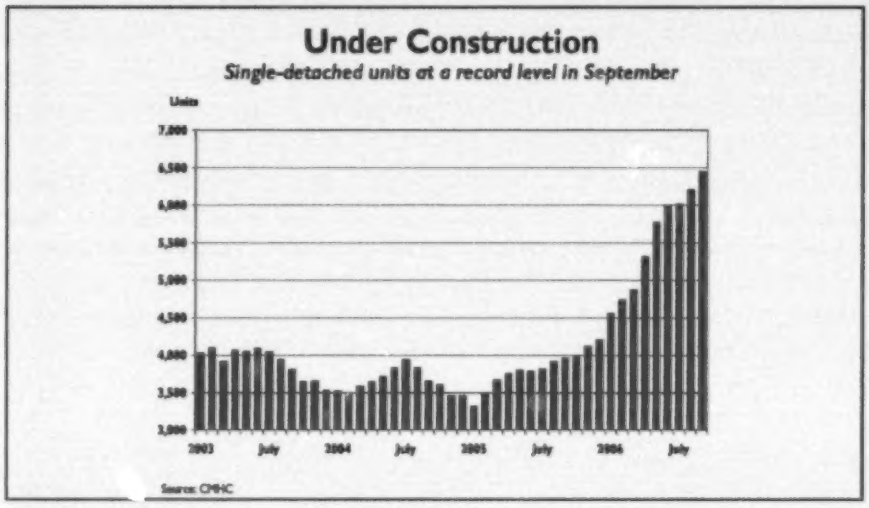


2007, single-detached starts are expected to pull-back from the heights of this year by nine per cent to 9,500 units.

Ownership Multi-family Starts at Record Highs

At an expected 6,750 units in 2006, multi-family construction, which includes semi-detached, row, and apartment units, will post its best performance since 1981. Back then, the majority of construction was for rental tenure as the tax structure promoted rental investment at that time. Currently, almost all multi-family construction is for homeownership. A total of 4,735 multi-family units have been started through the first nine months of 2006, about 22 per cent higher than the previous year.

Multi-family unit inventory has remained low throughout 2006. At the end of September, there were only 81 units in inventory (completed and unabsorbed) consisting of 68 semi-detached units, 7 apartment units and 6 row units. The low inventory level throughout the year has encouraged construction. At the end of September there were 7,740 multi-family units under construction, 36 per cent more than the previous year.

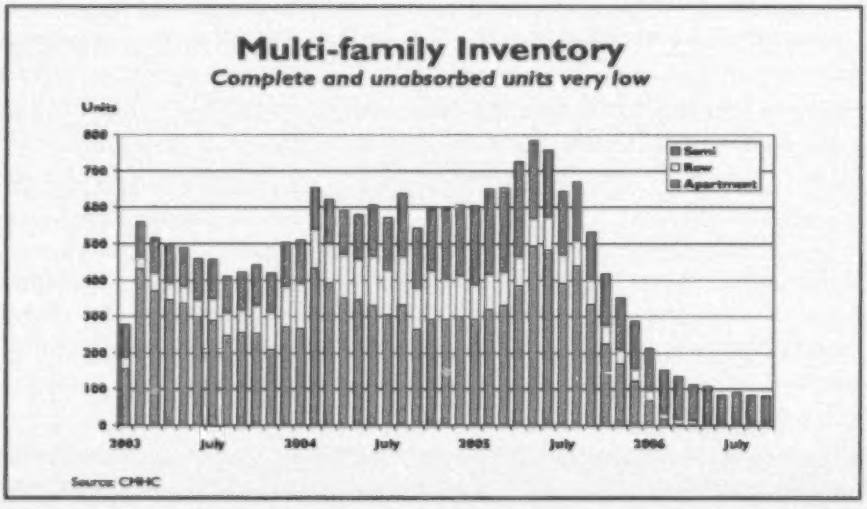
The labour shortage and shift to concrete construction has impacted the pace of completions. To the end of September there have been 2,770 multi-family completions, down about 29 per cent from the same period last year. The lower level of completions has also impacted the number of units absorbed. After nine months, there have been 3,016 multi-family units absorbed, a decrease of 21 per cent year-over-year. Given the high number of units under construction, the pace of absorptions is expected to rise significantly once many reach completion. Most are expected to be absorbed at completion.

The relative price advantage of a multi-family unit compared to a single-detached home, as well as the lifestyle and location condominiums offer, will keep demand strong. However, the sharp rise in condominium prices this year wil also inhibit demand. The average price of a resale condominium will have risen by 41 per cent to just under $260,000 by the end of 2006. Price growth is expected to continue in 2007, with the average condominium price expected to rise by double digits to around $287,000. The rising prices and increased supply will add to inventories in 2007 and as a result, multi-family builders will ratchet down construction. Multi-family starts are expected to total 6,250 units in 2007, about a 7 per cent drop from this year.

RESALE MARKET

Resale supply recovered from record low

The backlog of new home orders has impacted the flow of listings on the resale market. Uncertainty over prolonged possession dates has delayed the new home buyers' decision to list their existing homes. Previously, the 10-year average number of MLS active listings from January to June was 4,651. In 2006, active listings dropped dramatically,



averaging 1,907 in the first half of the year. This represented a drop in supply of about 58 per cent.

The number of new listings coming into the market place was lower for each and every month from January to May 2006 compared to the previous year. It was not until June that the monthly volume of new listings exceeded the same month in 2005. The supply which bottomed out in April at 1,693 active listings increased through the summer months. As of September, they climbed to 6,142 units, 58 per cent higher than the previous year. Listings are expected to increase further into the fall and exceed last year's levels over the balance of this year. Once many of the record level of housing units under construction are completed, there will be a flow of people moving into their new homes and listing their existing one. The increased level of active listings will likely be maintained in 2007, averaging 50 per cent higher than 2006. The increased selection will be good news for prospective buyers and will serve to moderate price growth.

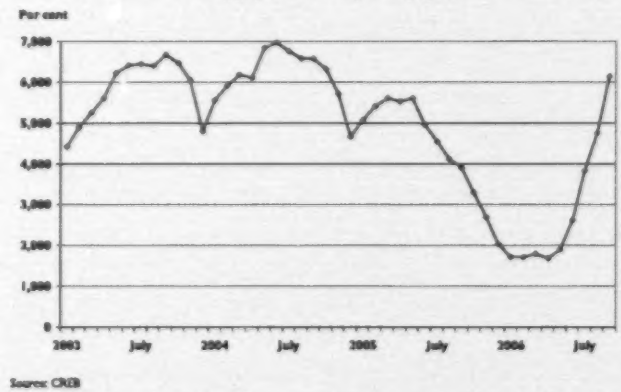
Demand to moderate from 2006 record

MLS sales started 2006 at a blistering pace. January sales were almost 50 per cent above the year before. In February, sales penetrated the 3,000 unit mark, an occurrence happening only three other times on record. After a few months, it had become clear that 2006 would be an exceptional year. MLS sales would exceed 3,000 sales on a monthly basis for five consecutive months, with a record high of 3,550 in May. To the end of September, sales have reached 26,574, a 9 per cent gain over the same period in 2005. By year-end, MLS sales are expected to set a new record, surpassing the previous high from 2005 by approximately 3 per cent. This will be the third consecutive year that a new record for sales has been reached.

The primary risk to sales moving forward is the dramatic increase in prices. Demand will moderate as prospective home buyers digest the higher price structure, either deferring or postponing their decision to buy. Escalating prices are already having an impact on demand for both condominium and single-detached units. The year-over-year growth rate in sales began the year at approximately 50 per cent. As 2006 progressed, the growth rate of sales declined in response to escalating prices. By the end of September, the year-to-date gain in sales had moderated to 15 and six per cent for condominium and single-detached units, respectively.

Active Listings

Supply increasing sharply



In 2007, we expect demand to slip modestly. Potential first-time buyers will require more time to accumulate their down payment, and will wait until their incomes rise sufficiently to offset the larger amount of principal that will need to be amortized. Sales volumes will also decline due to a decline in speculative demand. With prices stabilizing, opportunities for speculators will diminish significantly from those that existed earlier in 2006. However, the demand for primary homeownership remains strong. Net migration is expected to remain elevated, as is job creation, income growth, and move-up buying. As a result, the volume of sales in 2007 is expected to exceed the 30,000 unit benchmark to be the third best on record, reaching about 30,500 units.

Record pace of price growth to moderate

A sharp drop in supply during the first part of the year combined with record demand has resulted in tremendous upward pressure on home prices. Market sentiment was severely in favour of sellers'. With inventory at record lows, demand from urgent buyers resulted in bidding wars and a high percentage of units sold above list price. As a result, the pace of price growth has been unprecedented. To the end of September, the total average price had reached $342,000, up an astounding 38 per from the same period last year.

The extraordinary price growth has redefined the expectations of a starter home in Calgary. Not long ago, a starter home used to be characterized as a single-detached house with a garage in an affordable neighbourhood. Now for many first-time buyers, the price escalation will mean that they will be shifting their expectations toward a townhouse or condominium apartment.

The anticipated higher level of listings and modestly weaker demand should moderate price growth moving forward. Following a record gain of 39 per cent in 2006, average price growth will ease to about 9 per cent next year. The MLS average price for all units is forecasted to rise from $348,700 in 2006 to about $381,000 in 2007.

RENTAL MARKET

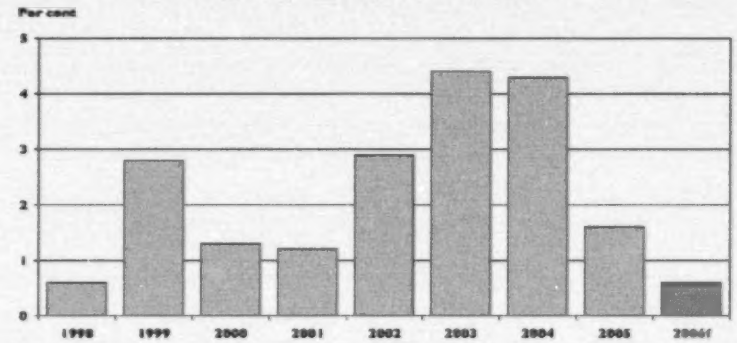
Few Vacancies Expected in 2006 and 2007

According to results from CMHC's annual rental market survey, apartment vacancies in the Calgary CMA averaged 1.6 per cent in 2005. Since then, a record number of migrants moved to Calgary, with many turning to the rental market to meet their housing needs. As newcomers have a higher propensity to rent, the net flow of almost 26,000 new people to Calgary has filled most vacant apartments. Meanwhile, continued removal of the rental stock via condominium conversion and a lack of new rental construction will further diminish the rental supply. At the time of writing, 2006 has yet to see any new market rental apartment starts in the City of Calgary. There has been however some rental starts, an 88 unit rental project for seniors and a 60 unit rental project for social housing under the Affordable Housing Initiative.

Collectively, these factors are expected to have cut the vacancy rate to 0.6 per cent this October. The massive inflow of people to Calgary is not expected to ease in 2007, and should sufficiently replace those renters moving to homeownership. Meanwhile, the conversion of rental apartments to condominium is expected to continue in 2007 and few units are started to replace them. As a result, expect little change in the apartment vacancy rate in 2007.

Apartment Vacancy Rate Declining

Calgary's vacancy rate is very low



Source: CMHC

Strong Rent Increases to Moderate in 2007

The high demand for apartment units and low inventory will support strong growth in rental rates. Over the past two years, Calgary's rental market has tightened dramatically, falling from a 10-year high in 2003 to near-record lows this year. As a result, the period of high vacancy rates which caused landlords to provide incentives and keep rents flat is long behind us. As the rental market has tipped in favour of landlords, rents are expected to rise dramatically in 2006 as new rental agreements are negotiated. In 2006, rents are expected to rise sharply by about 25 per cent. Tenants can expect rents to rise further in 2007, with the projected average rental rate to be seven per cent higher than it was in 2006.

ECONOMIC OVERVIEW

Solid Job Growth Thanks to Record Net Migration

Calgary is currently experiencing a construction boom with a multitude of residential, commercial, institutional and infrastructure projects under development. The oil and gas industry among other sectors are also competing heavily for labour, contributing to a very tight labour market and shortage of workers. In 2006, Calgary's unemployment rate reached a record low of 2.9 per cent in April. At the end of August, the unemployment rate edged back up to 3.5 per cent, still representative of full-employment conditions. The rapidly expanding economy has impacted the housing industry. The labour shortages that exist in the housing industry have lengthened the average time to build a house to completion and increased the cost of production.

The good news is that a lot of people are coming to Calgary. Following 13,667 net migrants in 2005, net migration to the City of Calgary increased dramatically in the fiscal year 2006, reaching a record 25,794 people. Net migration is expected to continue at this high level with an estimated 26,000 additional people arriving next year. Employment opportunities are plentiful in Calgary and employers in a variety of industries are boosting wages to contend with the labour shortage. Average weekly earnings continue to be strong and are growing at almost double digit rates.

A total of 7,150 jobs were created in 2005 in the Calgary CMA, a relatively poor year for job creation. That was not because of a weak labour market

but rather overall job creation was limited by a lack of growth in the labour force. In 2006, the surge in migration and an increase in the participation rate boosted the labour force sufficiently to fill a multitude of vacant positions. For 2006, CMHC expects employment to average 646,000, representing a hefty gain of 40,000 jobs.

Along with new jobs created, there has also been a movement from part-time to full-time jobs, and this will help increase the demand for housing. Though net migration will expand the labour force further in 2007, the prospect for additional gains in the participation rate is low since it has returned to record highs. With Calgary's labour market at full employment, expect job growth in 2007 to be limited to 15,000 positions, representing a gain of 2.3 per cent.

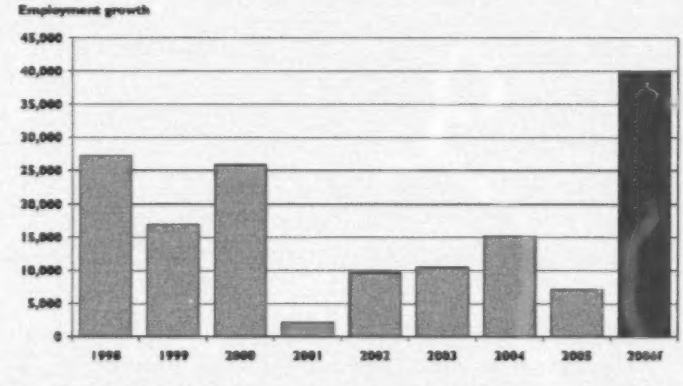
Mortgage rates have peaked

A combination of a slowing economy, strong Canadian dollar vis-à-vis the U.S. dollar, and moderate inflation will help keep Canadian interest and mortgage rates low over the remainder of this year and in 2007.

Mortgage rates rose by 1.0-1.5 percentage point between September 2005 and September 2006. Mortgage rates are expected to remain low, easing by 25-75 basis points over the next two-three quarters before starting to climb higher. One, three and five-year posted mortgage rates are forecast to be in the 5.50-6.50, 5.75-6.75, and 6.00-7.00 per cent ranges respectively over the rest of this year and in 2007.

Calgary Annual Employment Growth

Lots of job creation in Calgary



Source: Statistics Canada, CMHC Forecast

CMHC FORECAST SUMMARY

Calgary Census Metropolitan Area

Fall 2006

RESALE MARKET	2004	2005	%Chg	2006*(f)	%Chg	2007*(f)	%Chg
MLS active listings (Annual Avg.)	6,178	4,396	-28.8%	3,143	-28.5%	4,826	53.5%
MLS® Sales							
Total	26,512	31,567	19.1%	32,500	3.0%	30,500	-6.2%
Single-family	19,513	22,764	16.7%	23,075	1.4%	21,350	-7.5%
Condominium	6,999	8,803	25.8%	9,425	7.1%	9,150	-2.9%
MLS® Price ($)							
Total	$222,851	$250,789	12.5%	$348,700	39.0%	$381,000	9.3%
Single-family	$243,059	$276,567	13.8%	$385,100	39.2%	$421,500	9.5%
Condominium	$166,514	$184,127	10.6%	$259,600	41.0%	$286,500	10.4%
NEW HOME MARKET							
Starts							
Total	14,008	13,667	-2.4%	17,250	26.2%	15,750	-8.7%
Single-family	8,233	8,719	5.9%	10,500	20.4%	9,500	-9.5%
Multiple-family	5,775	4,948	-14.3%	6,750	36.4%	6,250	-7.4%
Average New House Price							
Single-family	$285,243	$315,796	10.7%	$355,000	12.4%	$487,500	37.3%
RENTAL MARKET							
Vacancy rate (Oct)	4.3	1.6		0.6		0.6	
2-bedroom Rent (Annual % Chg)	0.0%	0.0%		25.0%		7.0%	
ECONOMIC OVERVIEW							
Mortgage rate (1 yr term)	4.59	5..06		6.27		6.0 - 6.25	
Mortgage rate (5 yr term)	6.23	5.99		6.67		6.25 - 6.75	
Employed	598,730	605,880	1.2%	645,880	6.6%	660,880	2.3%
Employment growth (# jobs)	15,200	7,150		40,000		15,000	
Net-migration (Census Year)[2]	2,253	13,677		25,794		26,000	

* CMHC Forecast

Source: CMHC, Calgary Real Estate Board, Statistics Canada, City of Calgary, CMHC Forecast

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

2 May 1 to April 31 period

CMHC – HOME TO CANADIANS

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